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June 20, 2003

TO: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **AUDIT OF TRINITY CHILDREN & FAMILY SERVICES FOSTER FAMILY AGENCY CONTRACT**

Attached is our audit report on Trinity Children & Family Services (Trinity) fiscal operations for the period July 1, 2000 through June 30, 2001. Trinity is licensed to operate a Foster Family Agency (FFA) and for the period of our review, had 477 children placed in 291 certified homes. During our review period, Trinity received $7,609,792 of FFA foster care funds from the Department of Children and Family Services (DCFS). (Trinity also received $6,746,965 of Group Home foster care funds during the same period.) Trinity paid $2,374,383 of the FFA funds directly to foster parents. The Agency's administrative office is located in San Bernardino County. However, the Agency has FFA facilities in the Third, Fourth and Fifth Supervisorial Districts.

Scope

Our review was conducted at DCFS request to ensure that Trinity has complied with the contract and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures in providing services to children placed in the Agency's care. We also evaluated the adequacy of Trinity's accounting records, internal controls, and compliance with applicable federal, State and County fiscal guidelines governing the disbursement of FFA foster care funds.

Summary of Findings

Our review disclosed that Trinity did not allocate $1,065,805 in FFA administration cost. They administer FFA programs for six states and five counties within the State of California and to better determine Los Angeles County FFA program costs, Trinity needs to have a cost allocation plan for FFA administration costs.

We also identified $132,383 in expenditures for which Trinity did not have adequate documentation or where we do not believe the expenditures were eligible under federal or State guidelines or the County's contract. Of this amount, $68,318 was for vehicle expenditures that were inadequately supported, $2,232 in other unsupported or inadequately supported expenditures (e.g., travel, hotel and meal expenses), and $61,833 in inappropriate payments for capital improvements and investment fees. DCFS needs to discuss these expenditures with Trinity to determine if Trinity is able to provide adequate documentation to support the expenditures or to support their eligibility.

In addition, we noted several deficiencies in Trinity's controls over the disbursement of foster care funds. We also noted areas where Trinity needs to strengthen internal controls over timecards, vehicle logs, fixed assets, credit cards, bank account reconciliation and foster parent agreements. Details of our findings are discussed in the attached report.

DCFS should ensure that Trinity management takes appropriate corrective actions to address the recommendations in this report and also monitor this contractor to ensure that the corrective actions result in permanent changes.

Review of Report

We discussed our report with Trinity's management on June 4, 2003. They have agreed to provide DCFS with a written response and corrective action plan within 30 days of the report date. In addition, DCFS has agreed to provide my office with a written response within 60 days detailing the resolution of all findings contained in the report. We thank Trinity management and staff for their cooperation during our review.

JTM:DR:RL
Attachment

cc: Chief Administrative Office
David E. Janssen, Chief Administrative Officer
Department of Children and Family Services
David B Sanders, Ph.D., Director
John Oppenheim, Chief Deputy Director
Genevra Gilden, Chief, Quality Assurance Division
Trinity Children & Family Services
Father Tom Avramis, Chief Executive Officer
Board of Directors
California Department of Social Services
Cora Dixon, Chief, Foster Care Audit Bureau
Sheilah Dupuy, Chief, Foster Care Rates Bureau
Public Information Office
Audit Committee Members
Commission for Children and Families

TRINITY CHILDREN & FAMILY SERVICES
AUDIT OF FOSTER FAMILY AGENCY CONTRACT

BACKGROUND

The Department of Children and Family Services (DCFS) contracts with Trinity Children & Family Services (Trinity or Agency) to recruit, certify, train and support foster family homes and to provide treatment and support services for DCFS children placed in these homes. Trinity is licensed to operate both Foster Family Agency and Group Home facilities. This report only covers Trinity's Foster Family Agency operations. During our review period of July 1, 2000 through June 30, 2001, Trinity placed 477 children in 291 certified foster homes. Trinity's administrative office is located in San Bernardino County. However, Trinity has FFA facilities in the Third, Fourth and Fifth Supervisorial Districts.

Under the provisions of the contract, the County pays Trinity a monthly rate for each child based on the FFA Annual Treatment Rate determined by the California Department of Social Services (CDSS). For our review period, Trinity received a monthly rate between $1,467 and $1,759 per foster child. During this period, the Agency received $7,609,792 in FFA funds from DCFS.

CDSS has also established minimum amounts that Trinity is required to pay certified foster parents. Trinity is required to pay the foster care parents between $595 to $753 per month in accordance with the CDSS minimum rate criteria. During the period of our review, Trinity paid out $2,374,383 to foster parents in Los Angeles County.

APPLICABLE REGULATIONS AND GUIDELINES

Trinity is required to operate its FFA in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our audit:

- FFA Contract, including Exhibit F, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook).

- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations.

- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP).

- California Code of Regulations, Title 22 (Title 22).

SUMMARY OF FINDINGS

Our review disclosed that Trinity did not allocate $1,065,805 in FFA administration cost. They administer FFA programs for six states and five counties within the State of California and to better determine Los Angeles County FFA program costs, Trinity needs to have a cost allocation plan for FFA administration costs.

We also identified $132,383 in expenditures for which Trinity did not have adequate documentation or where we do not believe the expenditures were eligible under federal or State guidelines or the County's contract. Of this amount, $68,318 was for vehicle expenditures that were inadequately supported, $2,232 in other unsupported or inadequately supported expenditures (e.g., travel, hotel and meal expenses), and $61,833 in inappropriate payments for capital improvements and investment fees.

In addition, we noted several deficiencies in Trinity's controls over the disbursement of foster care funds. We also noted areas where Trinity needs to strengthen internal controls over timecards, vehicle logs, fixed assets, credit cards, bank account reconciliation and foster parent agreements

ALLOCATION OF COSTS

Trinity operates three programs, Educational Services, Residential or Group Home (GH) Services, and Foster Family Agency (FFA) Services. During our review period, Trinity received $53,285,034 in total revenues of which $14,356,757 (FFA and GH funding) was from Los Angeles County.

We reviewed three Los Angeles County FFA program direct cost centers (Van Nuys/Palmdale, Long Beach/Orange, San Dimas) and indirect costs from two other sources, FFA Administration and Mission Support. The FFA Administration cost center includes the FFA program expenditures for six states, and five counties within the State of California. Mission Support includes all of the other general administrative costs (e.g. personnel, payroll, accounting, etc.).

The Circular requires Trinity to allocate indirect costs based on an equitable distribution base. In addition, the A-C Handbook requires the contractor to prepare a cost allocation plan and maintain appropriate documentation to support the allocation of expenses. During our review, we noted that the Agency spent $1,065,805 on FFA administration costs but did not allocate these costs to the various counties or states. In order to determine whether Los Angeles County FFA funds have been spent appropriately, Trinity needs to have a cost allocation plan for FFA administration costs.

We also noted that Trinity's full-time salaried employees do not prepare timecards or time reports to indicate the hours worked or the program serviced. This is a primary component of a cost allocation plan.

Trinity did, however, have a cost allocation schedule for Mission Support costs. The schedule provided by Trinity separates the Mission Support costs by programs and cost centers on a calendar year basis rather than on a fiscal year basis.

Since there was no cost allocation plan for FFA administration and Mission Support costs were determined on a calendar year basis instead of a fiscal year basis, we had to estimate the indirect cost rates pertaining to Los Angeles County that were associated with our fiscal review period. We utilized Trinity's FFA expenditures to calculate the allocation of Mission Support costs related to Los Angeles County to be 10.5%. In addition, we calculated 42.8% of the FFA Administration costs should be allocated to Los Angeles County. These percentages were reviewed by the Auditor-Controller's Cost Accounting Section and discussed with Trinity's management. We used these percentages to determine the amount of questioned costs associated with the Agency's Los Angeles County FFA operations, for this review. However, it must be recognized that these estimates are not a substitution for a cost allocation plan.

Recommendation

1. **Trinity management develop a cost allocation plan for FFA Administration costs, including allocation of payroll costs utilizing time cards or time reports.**

PREPARATION OF EMPLOYEE TIMECARDS OR TIME REPORTS

Per Circular A-122, Attachment B, Section 7(m), "charges for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages must be supported by personnel activity reports." Also, "each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization." Further, "the reports must be signed by the individual employee or by a responsible supervisory official having first hand knowledge of the activities performed by the employee..." Without such records, there is no documentation that employees worked their full-time schedule or that the appropriate program was charged.

The A-C Handbook also requires timecards or time reports to be prepared for each pay period. Timecards or time reports must indicate the total hours worked each day by program and total hours charged to each of Trinity's programs. Time estimates do not qualify as support for payroll expenditures and will be disallowed on audit. Trinity could not provide appropriate documents to support their costs for direct or indirect salaries.

To determine if Trinity has correctly charged program costs, they should perform a "time study" over a set time period, where employees are required to code their work hours to the programs they work on. The results of the "time study" should be reviewed by DCFS to determine whether Trinity has properly charged its employees' time to the appropriate program.

Recommendations

Trinity management:

2. **Require employees to complete timecards or time reports for each pay period, signed by the employee and supervisor.**

3. **Conduct a “time study” over an established period of time to support the allocation of employee hours and salaries already charged to various programs. This would be part of the cost allocation plans discussed in recommendation 1.**

DCFS management:

4. **Ensure that Trinity complies with the requirement to prepare timecards or time reports signed by each employee and his/her supervisor.**

5. **Review Trinity’s “time study” and determine the appropriateness of salary expenditures charged to Los Angeles County’s FFA program. DCFS should also verify the reasonableness of the salary expenditures based on the cost allocation plans submitted by Trinity in recommendation 1.**

REVIEW OF EXPENDITURES

Our review disclosed a total of $132,383 in unsupported/inadequately supported expenditures and ineligible expenditures. Details of these expenditures are discussed below.

Unsupported/Inadequately Supported Expenditures

Per the A-C Handbook, all revenues and expenditures shall be supported by original vouchers, invoices, receipts, cancelled checks or other documentation. Unsupported expenditures will be disallowed on audit. We identified $70,550 in FFA expenditures that were either unsupported or inadequately supported.

Vehicle Expenses

We were not able to determine if the Agency’s vehicles were used exclusively for business purposes. We visited three of the four Trinity facilities in Los Angeles County (Van Nuys, Long Beach and San Dimas) and noted that vehicle logs were not properly maintained and/or not available for review. Trinity’s Fleet Manager indicated that he is aware of the recording problems by the area directors with vehicle logs. In addition, he indicated that each area director and some managers receive a company vehicle that they drive to and from home. He also told us that after he reviews the logs he discards them. The A-C Handbook requires that all supporting documentation be retained for five years.

Because of the lack of documentation to support the Agency's vehicle expenses, we are questioning $68,318, Los Angeles County's allocation for the vehicle related expenses. This includes fuel costs, repairs and maintenance, insurance, taxes and licenses, leases and interest payments during the review period.

Other Unsupported / Inadequately Supported Expenditures

From Trinity's general ledger, we selected and tested 130 expenditures totaling $92,505. Of this amount, $2,232 in expenditures was either unsupported or inadequately supported.

- Expenditures totaling $706 were inadequately supported.

    - car rentals with no explanation provided,
    - travel, meal and hotel expenses with no agendas or other documentation to indicate the nature and purpose of the trips or who the meals were for.

- Expenditures totaling $1,526 were not supported by receipts or invoices. These expenditures also involve travel, hotel, meals and food items.

Ineligible Expenditures

We identified $61,833 in expenditures which we do not believe are eligible under federal or State guidelines or the County's contract. Listed below are details of these expenditures.

Capital Improvements

Trinity incurred $203,492 in capital improvements. Of this amount, $44,992 was expended for capital improvements to Trinity's Los Angeles County facilities (San Dimas and Long Beach). An additional $16,402 is Los Angeles County's allocation (10.5%) for capital improvements to Trinity's Mission Support facilities. Per Circular A-122, Attachment B, Section 15d, "capital expenditures for improvements to land, buildings, or equipment, which materially increase their value or useful life, are unallowable as a direct cost except with the prior approval of the awarding agency." However, costs incurred that neither add to the permanent value of the property nor appreciably prolong its intended life but keep it in an efficient operating condition, are allowable. Since these improvements materially increased the value of the buildings and Trinity could not provide documentation that DCFS approved the building improvements, we are questioning $61,394 ($44,992 plus $16,402) of these expenditures as ineligible.

Investment Fees

Trinity paid $4,173 in investment fees to various firms such as Merrill Lynch, Solomon Smith Barney, Hoefer & Arnett and Charles Schwab. We calculated the amount that represents Los Angeles County to be $439. Per Circular A-122, Attachment B, Section 23c, "costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments are unallowable." As a result, we are questioning $439 as ineligible expenditures.

DCFS needs to discuss these expenditures with Trinity to determine if Trinity is able to provide adequate documentation to support the expenditures or to support their eligibility.

Recommendation

6. **DCFS management resolve the $132,383 in identified expenditures and, if appropriate, collect any disallowed amounts.**

In order to demonstrate the ability to appropriately account for foster agency funds and administer the program in compliance with the terms of their agreement with the County, Trinity should implement the following recommendations:

Recommendations

Trinity management:

7. **Maintain detailed vehicle logs to adequately support vehicle expenditures. The vehicle logs should be kept for a minimum of five years as required by the A-C Handbook.**

8. **Ensure that Los Angeles County foster care funds are used only for necessary, allowable and reasonable expenditures to carry out the purpose and activities of the FFA.**

9. **Maintain adequate supporting documentation, including original itemized invoices and receipts, for all FFA expenditures.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

Our audit disclosed several contract compliance issues and internal control weaknesses in addition to those already mentioned. These deficiencies may have contributed to the questioned expenditures discussed above. DCFS should ensure that Trinity management takes appropriate corrective actions to address each of the internal control recommendations in this report. DCFS should also monitor this contractor to ensure that the corrective actions result in permanent changes.

Inadequate Accounting Procedures

During our review, we identified the following inadequate accounting procedures:

- Trinity does not conduct a physical inventory of their fixed assets on an annual basis, as required by the A-C Handbook, to ensure that all fixed assets are accounted for and maintained in proper working order. Trinity's Accounting

Section relies solely on an Asset Change Notice form prepared by each facility management to track inventory.

- 25 (19%) of 130 expenditure items tested were not properly charged to the appropriate cost centers. The Agency coded the 25 items as administrative costs (Mission Support). When we discussed these items with the Agency's staff, we were told that these charges should have been a direct cost to one of the Agency's other cost centers.

Recommendations

Trinity management:

10. Perform a physical inventory of fixed assets on an annual basis to ensure all fixed assets are accounted for and maintained in proper working order.

11. Ensure that all expenses are charged to the appropriate cost centers.

Credit Card Usage

Fourteen (11%) of 130 expenditure items we tested were for personal expenses the Chief Executive Officer (CEO) paid for with the Agency's credit cards. Although the CEO did identify and reimburse the Agency for these charges, the Agency needs to establish a policy to prohibit the use of the Agency's credit cards for personal purchases.

Recommendation

12. Trinity management establish a policy to prohibit employees' use of the Agency's credit cards for personal charges.

Bank Reconciliations

Per the A-C Handbook, monthly bank reconciliations should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. Both the preparer and reviewer should sign the bank reconciliations. Reconciling items should be resolved timely. We reviewed the June 2001 bank reconciliation and noted the following:

- The bank reconciliation was not signed and dated by the preparer and reviewer.
- The reconciliation was prepared and reviewed on a quarterly basis, instead of monthly.
- Trinity had 13 outstanding checks from 1998, five outstanding checks from 1999, and 31 outstanding checks from 2000.

Recommendations

Trinity management:

13. Ensure bank reconciliations are reviewed and approved by management on a monthly basis and that all reconciliations are dated and signed by the preparer and reviewer.

14. Review the list of outstanding checks and, when appropriate, cancel any checks that have been outstanding for an unreasonable amount of time.

Foster Parent Payments

We sampled 12 foster parent payments involving 28 children to ensure that a signed written agreement exists between the foster parent and Trinity, that the foster parents were compensated, and that the payments meet the State required minimum amount. Our test work revealed the following:

- Four (14%) of 28 contract agreements with foster parents did not specify the monthly rate to be paid to the foster parents.

- Five (18%) of 28 contract agreements with foster parents were not signed by the foster parent and/or social worker.

Recommendation

15. Trinity management ensure foster parent agreements contain a payment rate, that the rate is current to meet the State established guidelines and that the foster parents and Trinity's social workers sign the agreements.